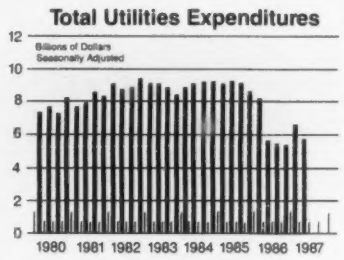
1/18/88 R4105-11A

The Conference Board

Economic Analysis Program

Utility Investment Report

A Quarterly Report from The Conference Board **Second Quarter 1987**

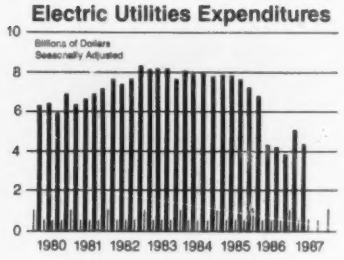


Overview

Capital spending by the nation's investor-owned utilities has been uneven. It rose by 26% to $7.6 billion in the first quarter of 1987, after hitting an eight-year low in the previous quarter. The spending level then fell by 8% to $7.1 billion in the second quarter of 1987. Given widespread excess capacity in the utilities industry, sluggish demand, and regulatory and competitive pressures, we expect further decline in capital spending by the utilities through year-end.

Recent Strength in Gas, Weakness in Electricity

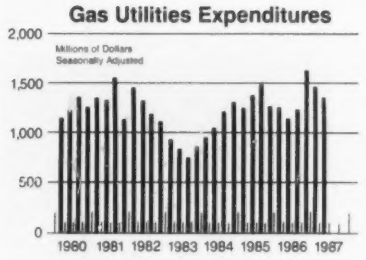
Overall, The Conference Board's survey shows that capital spending in the electric-utility sector remains weak, while spending in the gas-utility sector has picked up. Electric-utility spending, which had declined over the course of 1986, dropped from $6.4 billion in the first quarter of 1987 to $5.7 billion in the second. In contrast, gas-utility spending rose by 4% to $1.4 billion in the second quarter of 1987, after remaining fairly level over the five previous quarters.



Appropriations Uniformly Lower

Approval of new investment spending declined for both electric and gas utilities in the second quarter of 1987 over the first quarter. Appropriations by the electric utilities fell by 15% to $4.3 billion in the second quarter, approximately the level of the third quarter of 1986. Appropriations by the gas utilities declined by 8% to $1.4 billion over the same period but remained 6.5% above the third quarter of 1986.

The most negative aspect of these latest numbers on utility investment is the uniform decline in closing backlogs. In the second quarter, the electric-utilities backlog fell to its lowest level ever. In contrast, the backlog for gas utilities only declined to its level of a year ago. The drop in the backlog of unspent appropriations, then, reflects a slowing of the spending pace, as future spending plans are being scaled back. That may indicate that the rise in investment spending by gas utilities will slow, while electric utilities continue to cut back.



* Outlook * Decreasing Expenditures Over the Next Few Quarters

The low and declining level of spending plans, and the ongoing drop in the rate of expenditure, point to continued, and perhaps serious, weakness in utility spending over the near-term—and conceivably beyond.

As suggested in earlier issues of this report, electric-utility sector spending is not expected to begin recovery until the early 1990s. The drop in the closing backlog suggests that the current modest spending level exceeds the rate at which new spending programs are being approved.

Also, we had earlier anticipated a 2-3% rise in gas-utility spending for all of 1987. Notwithstanding, the second-quarter spurt in spending, the picture is now one of declining appropriations and falling backlogs.

Ken Goldstein
December 4, 1987

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CAPITAL APPROPRIATIONS AND EXPENDITURES OF INVESTOR-OWNED GAS AND ELECTRIC UTILITIES

	QUARTERLY TOTALS Millions of Dollars					PERCENT CHANGE Previous Quarter				Year-Ago)
	II-86	III-86	IV-86	I-87	II-87	III-86	IV-86	I-87	II-87	II-87*
—SEASONALLY ADJUSTED—										
TOTAL UTILITIES										
Opening Backlog	52,648	48,805	46,699	45,694	44,878					
Appropriations	5,544	5,530	5,491	6,513	5,627	- 0.2	- 0.7	-18.6	-13.6	1.5
Cancelations	-1,685	101	416	- 320	267					
Capital Expenditures	7,702	7,535	6,080	7,649	70592	- 2.2	-19.3	25.8	- 7.7	- 8.3
Closing Backlog	48,805	46,699	45,694	44,878	43,179					
ELECTRIC UTILITIES										
Opening Backlog	49,853	46,243	44,092	42,944	42,071					
Appropriations	4,384	4,261	3,882	5,036	4,275	- 2.8	- 8.9	29.7	-15.1	- 2.5
Cancelations	1,585	133	231	- 444	- 1					
Capital Expenditures	6,409	6,279	4,799	6,353	5,709	- 2.0	-23.6	32.4	-10.1	-10.9
Closing Backlog	46,243	44,092	42,944	42,071	40,638					
GAS UTILITIES										
Opening Backlog	2,795	2,562	2,607	2,750	2,807					
Appropriations	1,160	1,269	1,609	1,477	1,352	9.5	26.8	- 8.2	- 8.5	16.6
Cancelations	100	- 32	185	124	268					
Capital Expenditures	1,293	1,256	1,281	1,296	1,350	- 2.8	1.9	1.2	4.2	4.4
Closing Backlog	2,562	2,607	2,750	2,807	2,541					
—NOT SEASONALLY ADJUSTED—										
TOTAL UTILITIES										
Opening Backlog	59,231	52,433	47,911	45,694	50,479					
Appropriations	2,630	2,801	5,963	12,306	2,648	6.5	112.9	106.4	-78.5	0.7
Cancelations	1,315	- 580	1,608	920	1,096					
Capital Expenditures	8,113	7,903	6,572	6,601	7,234	- 2.6	-16.8	0.4	9.6	-10.8
Closing Backlog	52,433	47,911	45,694	50,479	44,797					
ELECTRIC UTILITIES										
Opening Backlog	54,032	48,499	44,817	42,944	45,230					
Appropriations	2,252	2,278	4,471	8,868	2,206	1.2	96.3	98.3	-75.1	- 2.0
Cancelations	892	- 536	1,356	896	889					
Capital Expenditures	6,893	6,496	4,988	5,686	5,972	- 5.8	-23.2	14.0	5.0	-13.4
Closing Backlog	48,499	44,817	42,944	45,230	40,575					
GAS UTILITIES										
Opening Backlog	5,199	3,934	3,094	2,750	5,249					
Appropriations	378	523	1,492	3,438	442	38.4	185.3	130.4	-87.1	16.9
Cancelations	423	- 44	252	24	207					
Capital Expenditures	1,220	1,407	1,584	915	1,262	15.3	12.6	-42.2	37.9	3 4
Closing Backlog	3,934	3,094	2,750	5,249	4,222					

REVISIONS: 1985-86 seasonally adjusted data for gas, electric and total utilities have been revised. Revised 1985 data is available upon request.

p denotes preliminary data.

Estimates are for all investor-owned gas and electric utilities. The electric utility companies surveyed account for 98% of all investor-owned companies' plant investment and kilowatt-hour sales to ultimate customers in 1984; the gas utilities surveyed account for 50% of 1984 revenues of all investor-owned gas utilities.

Historical data from 1958 available on request.

Sources: Edison Electric Institute; American Gas Association; The Conference Board.

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Prepared by Ken Goldstein, Economic Analysis Program, Eric J. Kruger, Director.
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The Conference Board

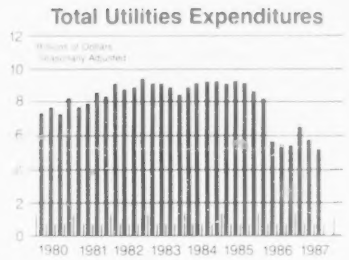
Economic Analysis Program

Utility Investment Report

Volume 1, Number 3 Spring 1988

Overview

Capital investment by the nation's investor-owned utilities appears headed for contraction in 1988. Despite strong increases, total capital spending in the third quarter of 1987 was only slightly higher than in the first quarter. This year, expenditures in the utilities industry are expected to be held down by sluggish demand, and regulatory and competitive pressures.

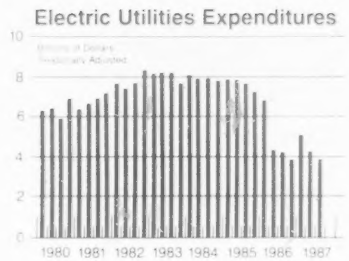


Recent Strength in Gas, Weakness in Electricity

Overall, The Conference Board's survey shows that capital spending in the electric-utility sector remains weak, while spending by gas utilities has maintained momentum. Electric-utility spending, which had declined over the course of 1986, recovered to $6.4 billion in the third quarter of 1987, roughly the same level attained in the first quarter of the year. In contrast, gas-utility spending, which stood at $1.4 billion in the third quarter, was 6.9% higher than in the first quarter of 1987.

Appropriations Off Sharply

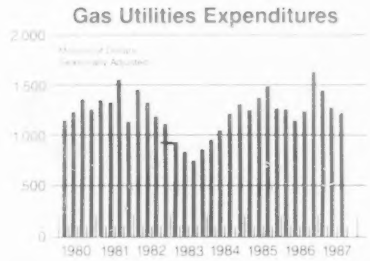
Approvals for new investment spending slid for both electric and gas utilities in the third quarter, marking the second consecutive quarterly decline. Appropriations by electric utilities totaled $3.9 billion in the third quarter of 1987, 22.5% below their first-quarter level. Appropriations by gas utilities reached $1.2 billion in the third quarter, 14.7% lower than in the first quarter.



The most negative aspect of these latest figures on utility investment is the sharp drop in closing backlogs. The electric utilities' backlog fell to its lowest level ever in the second quarter of 1987 and declined by another 6% in the third quarter. The backlog for gas utilities was no higher in the second quarter of 1987 than a year earlier but then declined by 8.3% in the third quarter.

These steady declines in the backlog of unspent appropriations suggest that ongoing projects are being allowed to continue, while the rate of approval of new projects is being scaled back. That suggests that capital spending levels will fall as ongoing projects are completed.

* Outlook * Decreasing Expenditures in 1988



The third quarter of 1987 may turn out to be a high water mark for investor-owned utility investment. The prolonged and steep decline in the backlogs of unspent appropriations point to sustained, and perhaps serious weakness in utility spending over the next few quarters and conceivably beyond.

As reported previously, the electric-utility sector is not likely to begin to recover until the early 1990's by which time the rise in electricity demand is anticipated to be sufficient to justify a rise in expenditure. The current decline in unspent backlogs suggests that the pace of new projects will be sharply lower than of projects now reaching completion.

The picture presented by gas utilities is not bleak. Nevertheless, earlier projections of a 2-3% rise in spending for 1987 have been revised downward in the face of declining appropriations and falling backlogs. The outlook for gas utility spending, however, is not as severe as that for electric utilities.

Ken Goldstein
March 4, 1988

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CAPITAL APPROPRIATIONS AND EXPENDITURES OF INVESTOR-OWNED GAS AND ELECTRIC UTILITIES

	QUARTERLY TOTALS Millions of Dollars					PERCENT CHANGE Previous Quarter				(Year-Ago)
	III-86	IV-86	I-87	II-87r	III-87p	IV-86	I-87	II-87	III-87	III-87
—SEASONALLY ADJUSTED—										
TOTAL UTILITIES										
Opening Backlog	48,805	46,699	45,694	44,856	43,262					
Appropriations	5,530	5,491	6,482	5,569	5,138	- 0.7	18.0	14.1	7.7	7.1
Cancelations	101	416	- 329	131	31					
Capital Expenditures	7,535	6,080	7,649	7,032	7,746	19.3	25.8	- 8.1	10.2	2.8
Closing Backlog	46,699	45,694	44,856	43,262	40,589					
ELECTRIC UTILITIES										
Opening Backlog	46,243	44,092	42,944	42,071	40,638					
Appropriations	4,261	3,882	5,036	4,275	3,904	- 8.9	29.7	15.1	- 8.7	- 8.4
Cancelations	133	231	- 444	- 1	0					
Capital Expenditures	6,279	4,799	6,353	5,709	6,360	23.6	32.4	10.1	11.4	1.3
Closing Backlog	44,092	42,944	42,071	40,638	38,182					
GAS UTILITIES										
Opening Backlog	2,562	2,607	2,750	2,785	2,624					
Appropriations	1,269	1,609	1,446	1,294	1,234	26.8	- 10.1	10.5	- 4.6	- 2.8
Cancelations	32	185	115	132	65					
Capital Expenditures	1,256	1,281	1,296	1,323	1,386	1.9	1.2	2.1	4.8	10.3
Closing Backlog	2,607	2,750	2,785	2,624	2,407					
—NOT SEASONALLY ADJUSTED—										
TOTAL UTILITIES										
Opening Backlog	52,433	47,911	45,694	50,435	44,895					
Appropriations	2,801	5,963	12,234	2,629	2,693	112.9	105.2	78.5	2.4	- 3.9
Cancelations	- 580	1,608	911	960	177					
Capital Expenditures	7,903	6,572	6,582	7,209	8,086	16.8	0.2	9.5	12.2	2.3
Closing Backlog	47,911	45,694	50,435	44,895	39,325					
ELECTRIC UTILITIES										
Opening Backlog	48,499	44,817	42,944	45,230	40,575					
Appropriations	2,278	4,471	8,868	2,206	2,186	96.3	98.3	75.1	- 0.9	- 4.0
Cancelations	- 536	1,356	896	889	111					
Capital Expenditures	6,496	4,988	5,686	5,972	6,532	23.2	14.0	5.0	9.4	0.6
Closing Backlog	44,817	42,944	45,230	40,575	36,118					
GAS UTILITIES										
Opening Backlog	3,934	3,094	2,750	5,205	4,320					
Appropriations	523	1,492	3,366	423	507	185.3	125.6	87.4	19.9	- 3.1
Cancelations	- 44	252	15	71	66					
Capital Expenditures	1,407	1,584	896	1,237	1,554	12.6	43.4	38.1	25.6	10.4
Closing Backlog	3,094	2,750	5,205	4,320	3,207					

REVISIONS: 1985-86 seasonally adjusted data for gas, electric and total utilities have been revised. Revised 1985 data is available upon request.

p denotes preliminary data.

Estimates are for all investor-owned gas and electric utilities. The electric utility companies surveyed account for 98% of all investor-owned companies' plant investment and kilowatt-hour sales to ultimate customers in 1984; the gas utilities surveyed account for 50% of 1984 revenues of all investor-owned gas utilities.

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The Conference Board

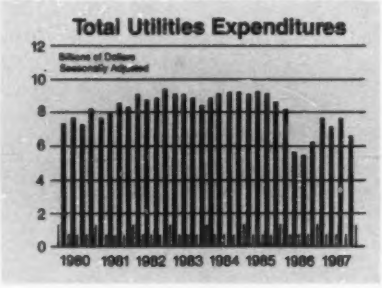
Economic Analysis Program

Utility Investment Report

Volume 1, Number 4 Summer 1988

Overview

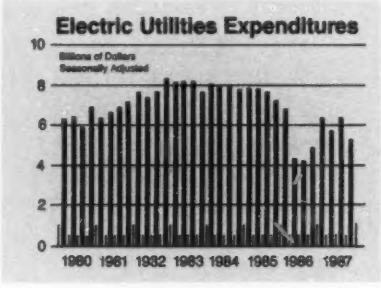
Capital spending by the nation's investor-owned utilities has been contracting, as a result of sluggish demand and regulatory and competitive pressures. Total spending in the fourth quarter of 1987 was 14% lower than in the first quarter, seasonally adjusted. However, there are now signs that the utilities are beginning to plan for expansion. Total capital appropriations (approval of new spending plans), rose substantially in the fourth quarter. In all, the latest quarterly survey indicates a more positive capital investment picture for utilities.



Weak Spending Trends Unchanged

Overall, The Conference Board's survey shows that current capital spending in both the electric-and gas-utility sectors remains slack. In fact, the $5.2 billion in capital spending in the electric-utility sector in the fourth quarter of 1987 was only marginally higher than one year earlier. Expenditures in the gas-utility sector have been basically flat for the last three years and, at $1.4 billion in the fourth quarter of 1987, that trend continues.

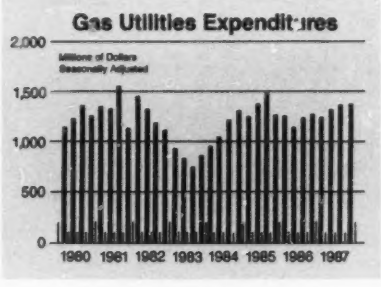
Appropriations Up Sharply



The new and significant trend in utility data is the rise in appropriations in the fourth quarter of 1987, after a prolonged decline. Approval for new spending in the electric-utility sector rose 18.4% in the fourth quarter of 1987, seasonally-adjusted. However, at $4.6 billion, appropriations were still slightly below the first-quarter level. The pattern was the same in the gas-utility sector: Following two quarterly declines, appropriations rose 19.5% in the fourth quarter, but, at $1.5 billion, were still somewhat below the first-quarter level.

Even though ongoing capital expenditures declined while approval of new spending projects picked up, the closing backlog of approved but as yet unspent capital appropriations fell. The difference is explained by the cancellations of projects previously approved. The closing of unspend appropriations for electric utilities fell to an all-time low in the second quarter of 1987, and then reached new lows in each of the last two quarters. The backlog for gas utilities has also been declining.

* Outlook * Appropriations Will Continue to Rise This Year; Spending Will Recover Much Later



One should never read too much into one quarter's worth of data. That caveat notwithstanding, the latest survey results may be signalling a pick-up in spending down the road. And that may be more true for electric than for gas utilities. For much of the past three years, the data suggest that electric utilities have been scheduling new projects that are more modest than those reaching completion. As a result, the "work order" of existing plus planned projects has progressively shrunk, perhaps to below-adequate levels. Thus the rise in new appropriations could represent plans to expand capacity to meet projected increases in demand in the 1990s.

The overall decline in capital expenditures by the gas utilities has been less severe. Nevertheless, the same trend of successively lower closing backlogs but a pick-up in new appropriations may be signalling an expansion of capital spending at a later date.

Ken Goldstein
June 17, 1988

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	IV-86	I-87	II-87	III-87	IV-87	I-87	II-87	III-87	IV-87	IV-87*
—SEASONALLY ADJUSTED—										
TOTAL UTILITIES										
Opening Backlog	44,666	43,482	42,671	41,077	38,249					
Appropriations	5,468	6,482	5,569	5,135	6,094	18.5	-14.1	- 7.8	18.7	11.4
Cancelations	538	- 329	131	235	249					
Capital Expenditures	6,114	7,622	7,032	7,728	6,524	24.7	- 7.7	9.9	-15.6	6.7
Closing Backlog	43,482	42,671	41,077	38,249	37,570					
ELECTRIC UTILITIES										
Opening Backlog	41,968	40,668	39,795	38,362	35,906					
Appropriations	3,866	5,036	4,275	3,904	4,623	30.3	-15.1	- 8.7	18.4	19.6
Cancelations	333	- 444	- 1	0	1					
Capital Expenditures	4,833	6,353	5,709	6,360	5,151	31.5	-10.1	11.4	-19.0	6.6
Closing Backlog	40,668	39,795	38,362	35,906	35,377					
GAS UTILITIES										
Opening Backlog	2,698	2,814	2,876	2,715	2,343					
Appropriations	1,602	1,446	1,294	1,231	1,471	- 9.7	- 10.5	- 4.9	19.5	- 8.2
Cancelations	205	115	132	235	248					
Capital Expenditures	1,281	1,269	1,323	1,368	1,373	- 0.9	4.3	3.4	0.4	7.2
Closing Backlog	2,814	2,876	2,715	2,343	2,193					
—NOT SEASONALLY ADJUSTED—										
TOTAL UTILITIES										
Opening Backlog	47,886	45,693	50,434	44,894	39,174					
Appropriations	5,927	12,234	2,629	2,629	2,728	106.4	-78.5	2.4	149.9	13.5
Cancelations	1,586	911	960	347	1,624					
Capital Expenditures	6,534	6,582	7,209	8,065	7,005	0.7	9.5	11.9	-13.1	7.2
Closing Backlog	45,693	50,434	44,894	39,174	37,273					
ELECTRIC UTILITIES										
Opening Backlog	44,817	42,944	45,230	40,575	36,118					
Appropriations	4,471	8,868	2,206	2,186	5,354	98.3	-75.1	- 0.9	144.9	19.7
Cancelations	1,356	896	889	111	1,427					
Capital Expenditures	4,988	5,686	5,972	6,532	5,306	14.0	5.0	9.4	-18.8	6.4
Closing Backlog	42,944	45,230	40,575	36,118	34,739					
GAS UTILITIES										
Opening Backlog	3,069	2,749	5,204	4,319	3,056					
Appropriations	1,456	3,366	423	506	1,374	131.2	-87.4	19.6	171.5	- 5.6
Cancelations	230	15	71	236	197					
Capital Expenditures	1,546	896	1,237	1,533	1,699	-42.0	38.1	23.9	10.8	9.9
Closing Backlog	2,749	5,204	4,319	3,056	2,534					

REVISIONS: 1985-86 seasonally adjusted data for gas, electric and total utilities have been revised. Revised 1985 data is available upon request.

p denotes preliminary data.

Estimates are for all investor-owned gas and electric utilities. The electric utility companies surveyed account for 98% of all investor-owned companies' plant investment and kilowatt-hour sales to ultimate customers in 1984; the gas utilities surveyed account for 50% of 1984 revenues of all investor-owned gas utilities.

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